

**CITY OF LAUDERHILL
GENERAL EMPLOYEES' RETIREMENT SYSTEM**

FINANCIAL STATEMENTS

FISCAL YEAR ENDED
SEPTEMBER 30, 2016

**CITY OF LAUDERHILL
GENERAL EMPLOYEES' RETIREMENT SYSTEM**

TABLE OF CONTENTS

	Page
INDEPENDENT AUDITOR'S REPORT	1-2
MANAGEMENT'S DISCUSSION AND ANALYSIS	3-6
FINANCIAL STATEMENTS	
Statement of Fiduciary Net Position	7
Statement of Changes in Fiduciary Net Position	8
Notes to Financial Statements	9-16
REQUIRED SUPPLEMENTARY INFORMATION	
Schedule of Changes in Net Pension Liability	17
Schedule of Employer Contributions	18
Schedule of Annual Money-Weighted Rate of Return on Pension Plan Investments	18
INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH <i>GOVERNMENT AUDITING STANDARDS</i>	19-22



Grau & Associates
CERTIFIED PUBLIC ACCOUNTANTS

2700 North Military Trail • Suite 350
Boca Raton, Florida 33431
(561) 994-9299 • (800) 299-4728
Fax (561) 994-5823
www.graucpa.com

INDEPENDENT AUDITOR'S REPORT

To the Board of Trustees
City of Lauderhill General Employees' Retirement System
Lauderhill, Florida

We have audited the accompanying financial statements of the City of Lauderhill General Employees' Retirement System ("Plan"), which are comprised of the statement of fiduciary net position as of September 30, 2016, and the related statement of changes in fiduciary net position for the fiscal year then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the fiduciary net position of the City of Lauderhill General Employees' Retirement System as of September 30, 2016 and the changes in its fiduciary net position for the fiscal year then ended in conformity with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and the required supplementary information be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated March 7, 2017, on our consideration of the Plan's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Plan's internal control over financial reporting and compliance.

March 7, 2017

CITY OF LAUDERHILL GENERAL EMPLOYEES' RETIREMENT PLAN

MANAGEMENT'S DISCUSSION AND ANALYSIS

This section of the annual financial report presents the Management's Discussion and Analysis ("MD&A") of the City of Lauderhill General Employees' Retirement System ("Plan") financial performance. This analysis provides an overview of the financial activities and funding conditions for fiscal year ended September 30, 2016. Please read it in conjunction with the Plan financial statements, which immediately follow.

Overview of the Financial Statements

The financial section of this annual report consists of four parts: MD&A, the basic financial statements, notes to the financial statements and other required supplementary information.

The financial statements provide both long-term and short-term information about the Plan's overall financial status. The financial statements also include notes that explain some of the information in the financial statements and provide more detailed data. The statements are followed by a section of other supplementary information that further explains and supports the information in the financial statements.

The Plan's financial statements are prepared in conformity with accounting principles generally accepted in the United States of America (GAAP). Under GAAP, revenues are recognized in the period in which they are earned, expenses are recognized in the period in which they are incurred and appreciation (depreciation) of assets is recognized in the Statement of Changes in Fiduciary Net Position. All assets and liabilities associated with the operation of the Plan are included in the Statement of Fiduciary Net Position.

The Statement of Fiduciary Net Position reports fiduciary net position and how it has changed. The net position is the difference between the assets and any related liabilities. It is one measurement of the financial health or current position of the Plan.

Financial Highlights

The Plan's financial statements net results from operations for fiscal year 2016 reflected the following financial activities:

- Total interest and dividend earnings were \$1,096,765, which was approximately 12% less than the fiscal year 2015 earnings.
- Total benefits and refunds of contributions paid were \$1,707,950, which was approximately 24% greater than the fiscal year 2015 benefits and refunds of contributions paid.
- Total employer contributions were \$1,162,968, which was approximately 4% less than fiscal year 2015 contributions. The amount of employer contributions varies from year to year and is actuarially determined.
- Total employee contributions were \$358,574, which was less than 1% greater than fiscal year 2015 contributions.

**CITY OF LAUDERHILL
GENERAL EMPLOYEES' RETIREMENT PLAN**

MANAGEMENT'S DISCUSSION AND ANALYSIS

Financial Highlights (Continued)

- For the fiscal year ended September 30, 2016, net investment gain was \$2,149,005, a net return of approximately 10.9%. The total fiduciary net position was \$21,762,029, which was \$1,901,861 greater than fiduciary net position at September 30, 2015.

Statement of Fiduciary Net Position

The following condensed comparative Statement of Fiduciary Net Position is a snap shot of account balances at the fiscal year end of the Plan. It reports the assets available for future payments to retirees and any current liabilities that are owed as of the financial statement date. The resulting net asset value, or assets minus liabilities, represents the value of assets held in trust for pension benefits.

The Plan continues to be evaluated for actuarial soundness by the actuary of the Plan. It should be noted that retirement system funding is based on a long-term perspective and that temporary fluctuations in the market are to be expected.

The following condensed Statement of Fiduciary Net Position demonstrates the investment positions of the Plan at September 30:

	SEPTEMBER 30,	
	2016	2015
ASSETS		
Cash and cash equivalents	\$ 238,617	\$ 421,877
Accrued investment income	13,572	22,415
Investments, at fair value	21,514,511	19,418,837
Total assets	21,766,700	19,863,129
Liabilities	4,671	2,961
NET POSITION RESTRICTED FOR PENSIONS	\$ 21,762,029	\$ 19,860,168

Statement of Changes in Fiduciary Net Position

The Statement of Changes in Fiduciary Net Position presents the effect of pension fund transactions that occurred during the fiscal year. On the statement, additions to the Plan minus deductions from the plan equal the net increase or decrease in Fiduciary Net Position.

The funding objective is to meet long-term obligations and fund all pension benefits.

**CITY OF LAUDERHILL
GENERAL EMPLOYEES' RETIREMENT SYSTEM**

MANAGEMENT'S DISCUSSION AND ANALYSIS

Statement of Changes in Fiduciary Net Position (Continued)

- Revenues (additions to the fiduciary net position) for the Plan were \$3,690,880, which was made up of employer and employee contributions of \$1,521,542 plus net investment income of \$2,149,005 plus other income of \$20,333.
- Expenses (deductions from the fiduciary net position) increased from \$1,457,849 in fiscal year 2015 to \$1,789,019 in fiscal year 2016.

The table below reflects a condensed summary of the changes in net positions and reflects the activities of the Plan.

	SEPTEMBER 30,	
	2016	2015
ADDITIONS:		
Contributions	\$ 1,521,542	1,568,974
Net investment income (loss)	2,149,005	(509,450)
Other income	20,333	5,208
Total additions	3,690,880	1,064,732
DEDUCTIONS:		
Benefits and refunds paid	1,707,950	1,382,619
Administrative expenses	81,069	75,230
Total deductions	1,789,019	1,457,849
Net increase (decrease)	1,901,861	(393,117)
Net position restricted for pensions at beginning of year	19,860,168	20,253,285
Net position restricted for pension at end of year	\$ 21,762,029	\$ 19,860,168

Asset Allocation

The table below indicates the Plan investment policy limitations and actual asset allocations as of September 30, 2016:

Type of Investment	Target Allocation	Actual Allocation
Domestic Equities	50%	54%
International Equity	15%	15%
US Direct Real Estate	0%	4%
Absolute Return	10%	5%
Fixed Income	25%	21%
Cash Equivalents	0%	1%

The investment guidelines provide for the appropriate diversification of the portfolio. Investments have been diversified to the extent practicable to control risk of loss resulting from over-concentration of a specific maturity, issuer, instrument, dealer or bank through which financial instruments are bought and sold.

CITY OF LAUDERHILL GENERAL EMPLOYEES' RETIREMENT SYSTEM

MANAGEMENT'S DISCUSSION AND ANALYSIS

Asset Allocation (Continued)

The Board recognizes that some risk must be assumed to achieve the Plan's long-term investment objectives. In establishing the risk tolerances, the Plan's ability to withstand short and intermediate term variability has been considered. However, the Plan's financial condition enables the Board to adopt long-term investment perspective.

Investment Activities

Investment income is vital to the Plan for current and future financial stability. Therefore, the Board of Trustees has a fiduciary responsibility to act prudently when making plan investment decisions. To assist the Board of Trustees in this area, the Board retains an investment monitor to evaluate and report on quarterly basis compliance by with the investment policy of the Board and investment performance of the Plan. The investment policy statement was last amended on August 20, 2013.

Contacting the Plan's Financial Management

This financial analysis is designed to provide the Board of Trustees, plan participants and the marketplace credit analysts with an overview of the Plan's finances and the prudent exercise of the Board's oversight. If you have any questions regarding this report or you need additional financial information, please contact the administrator of the City of Lauderhill General Employees' Retirement System, 6861 SW 196th Ave, Suite 402, Ft. Lauderdale, Florida 33332.

**CITY OF LAUDERHILL
GENERAL EMPLOYEES' RETIREMENT SYSTEM**

STATEMENT OF FIDUCIARY NET POSITION

AS OF SEPTEMBER 30, 2016

ASSETS	
Cash and cash equivalents	\$ 238,617
Investments, at fair value:	
Mortgage loan receivable	850,000
Fixed income mutual funds	4,652,094
Income opportunity mutual funds	1,017,352
Equity mutual funds	11,806,671
International mutual funds	3,188,394
Total investments, at fair value	<u>21,514,511</u>
Accrued investment income	13,572
TOTAL ASSETS	<u>21,766,700</u>
LIABILITIES	
Accounts payable	<u>4,671</u>
TOTAL LIABILITIES	<u>4,671</u>
NET POSITION RESTRICTED FOR PENSIONS:	
Net position restricted for Deferred Retirement Option Plan Benefits	241,531
Net position restricted for Defined Benefits	21,520,498
TOTAL NET POSITION RESTRICTED FOR PENSIONS	<u>\$ 21,762,029</u>

See notes to the financial statements

**CITY OF LAUDERHILL
GENERAL EMPLOYEES' RETIREMENT SYSTEM
STATEMENT OF CHANGES IN FIDUCIARY NET POSITION
FOR THE FISCAL YEAR ENDED SEPTEMBER 30, 2016**

ADDITIONS	
Contributions:	
Employer	\$ 1,162,968
Employee	358,574
Total contributions	<u>1,521,542</u>
Investment income:	
Net depreciation/appreciation in fair value of investments	1,081,773
Interest and dividends	1,096,765
Less: investment expenses	29,533
Net investment income	<u>2,149,005</u>
Other income	<u>20,333</u>
TOTAL ADDITIONS	<u>3,690,880</u>
DEDUCTIONS	
Pension benefits remitted	1,633,810
Refunds of contributions	74,140
Administrative expenses	81,069
TOTAL DEDUCTIONS	<u>1,789,019</u>
NET INCREASE (DECREASE)	1,901,861
NET POSITION RESTRICTED FOR PENSIONS	
Beginning of fiscal year	<u>19,860,168</u>
End of fiscal year	<u>\$ 21,762,029</u>

See notes to the financial statements

**CITY OF LAUDERHILL
GENERAL EMPLOYEES' RETIREMENT SYSTEM**

NOTES TO FINANCIAL STATEMENTS

NOTE 1 – THE REPORTING ENTITY AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The City of Lauderhill General Employees' Retirement System ("Plan") is a single-employer Public Employee Retirement System defined benefit plan, which began on July 1, 1977 covering all employees of the City that met conditions of eligibility. The Plan was established by the City in accordance with the City ordinances and state statutes. The Plan was subsequently amended to exclude the police officers and firefighters. Effective October 1, 2002, the Plan was amended to exclude all managerial and confidential employees.

The financial statements presented are only for the City of Lauderhill General Employees' Retirement System of the City of Lauderhill, Florida (the "City") and are not intended to present the basic financial statements of the City. The Plan is included in the City's Comprehensive Annual Financial Report ("CAFR"), which is a separately issued document.

Basis of Accounting

These financial statements have been prepared on the accrual basis of accounting. Revenues are recorded at the time they are earned. Benefits paid directly to participants and refunds of contributions are recorded when paid. Administrative expenses are recorded when incurred.

Cash and Investment Valuation and Income Recognition

The Plan considers all short-term investments with an original term of less than three months to be cash equivalents. Investments are recorded at fair value. To the extent available, fair value is based on quoted market prices in active markets on a trade-date basis. Additional information regarding the fair value measurement of investments is disclosed in Note 3. Net appreciation (depreciation) in fair value of investments includes realized and unrealized gains and losses. Realized gains and losses are determined on the basis of specific cost. Purchases and sales of securities are recorded on the trade-date basis. Interest and dividends are recognized as earned. Dividends are recorded on the ex-dividend date. Interest income is recorded on the accrual basis.

Income Taxes

The Plan is exempt from federal income taxes under the Internal Revenue Code and, accordingly, no provision for federal income taxes has been made.

Accounting principles generally accepted in the United States of America require Plan management to evaluate tax positions taken by the Plan and recognize a tax liability if the plan has taken an uncertain position that more likely than not would not be sustained upon examination by a taxing authority. The Plan is subject to routine audits by taxing jurisdictions; however, there are currently no audits for any tax periods in progress. The Plan Administrator believes it is no longer subject to income tax examinations for years prior to December 31, 2013.

Accounting Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amount of assets and liabilities and disclosures of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the period. Actual results could differ from those estimates.

**CITY OF LAUDERHILL
GENERAL EMPLOYEES' RETIREMENT SYSTEM**

NOTES TO FINANCIAL STATEMENTS

**NOTE 1 – THE REPORTING ENTITY AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES
(Continued)**

Basis of Presentation

The accompanying financial statements are presented in accordance with Governmental Accounting Standards Board (“GASB”) Statement 67, *Financial Reporting for Pension Plans—an amendment of GASB Statement No. 25*. This Statement replaces the requirements of Statements No. 25, *Financial Reporting for Defined Benefit Pension Plans and Note Disclosures for Defined Contribution Plans*, and No. 50, *Pension Disclosures*, as they relate to pension plans that are administered through trusts or equivalent arrangements that meet certain criteria.

New Accounting Standard Adopted

During the current fiscal year, the Plan adopted GASB 72, *Fair Value Measurement and Application*. The Statement improves financial reporting by clarifying the definition of fair value for financial reporting purposes, establishing general principles for measuring fair value, providing additional fair value application guidance, and enhancing disclosures about fair value measurements. These improvements are based in part on the concepts and definitions established in Concepts Statement No. 6, *Measurement of Elements of Financial Statements*, and other relevant literature. See Note 3 for additional information.

NOTE 2 – PLAN DESCRIPTION

The following brief description of the Plan provides only general information. Participants should refer to the City’s ordinances for more complete information.

Board of Trustees

Management of the Plan is vested in the Board of Trustees (“Board”), which consists of five total members. Two members shall be legal residents or current employees of the city, to be appointed by the city commission. Two members shall be general employees who are current members of the general employees’ pension fund. One member appointed by the city manager. The Board of Trustees’ duties include, amongst other responsibilities, making recommendations regarding changes in the provisions of the Plan; however, any changes to the Plan must be approved by the City Commission.

Plan Membership

As of October 1, 2015, the date of the latest actuarial valuation, Plan membership consisted of the following:

Active participants	84
Management employees due future benefits	25
Retirees, disabilities, beneficiaries and vested terminations	96
	<u>205</u>

Eligibility

To receive normal retirement benefits, Tier one members are those members of the plan who were hired on or before December 10, 2012. Tier two members are those members of the plan who were hired from December 11, 2012 to January 12, 2015. Tier three members are those members of the plan who were hired after January 12, 2015. A tier one member may retire on the first day of the month coincident with, or next following, the earlier of the date upon which the member completes twenty years of credited service, regardless of age, or attains age sixty-two with seven years of continuous service. A tier two or tier three member may retire on the first day of the month coincident with, or next following, the earlier of the date upon which the member completes twenty-five years of credited service, the date upon which the member attains age sixty-five with ten years of credited service, or the date upon which the member attains age sixty with fifteen years of credited service.

**CITY OF LAUDERHILL
GENERAL EMPLOYEES' RETIREMENT SYSTEM**

NOTES TO FINANCIAL STATEMENTS

NOTE 2 – PLAN DESCRIPTION (Continued)

Vesting

If a member terminates his employment with the City, either voluntarily or by discharge, and is not eligible for any other benefits under this system, he/she shall be entitled to the following:

- (a) Tier one members with less than seven years of continuous service, and tier two and tier three members with less than ten years of credited service will receive a refund of contributions.
- (b) Tier one members with seven or more years of continuous service, and tier two and tier three members with ten or more years of service may elect one of the following:
 - (1) The pension benefits accrued to the date of termination, payable for the life of the member and commencing upon the member's attainment of normal retirement age, provided he/she does not elect to withdraw his/her member contributions;
 - (2) Refund of accumulated contributions, in which event, no pension benefit shall be payable.

Benefits

Tier one members shall be an amount equal to three percent of average monthly earnings times years and completed months of continuous service for all years of employment. Tier two members shall be an amount equal to two and one-half percent of average monthly earnings times years and completed months of continuous service for all years of employment. Tier three members shall be an amount equal to two and one-quarter percent of average monthly earnings times years and completed months of continuous service for all years of employment.

The Plan also provides early and delayed retirement as well as death and disability benefits with benefits dependent on earnings, length of service or years of contributions, and age upon retirement, death or disability.

Deferred Retirement Option Plan (DROP)

Upon election to enter the DROP plan, the employee will not terminate employment with the City, but will cease accruing benefits under the Plan and the monthly benefit as of the election date will be saved and invested. Participation is limited to tier one members and is based on eligibility for normal service retirement with at least 20 years of service, regardless of age. The maximum DROP participation period is sixty months. Tier two and tier three members are not entitled to participate in DROP. An eligible participant who elects to participate in the DROP will be considered to have retired for purposes of the Plan. The participant's monthly retirement benefit, determined in accordance with the Plan based on years of credited service and final average earnings at the time the participant enters the DROP, will be paid into his or her DROP account every month during the DROP period. As a condition of participating in the DROP, the participant must agree to terminate City employment at the conclusion of the DROP. An employee's account in the DROP program shall earn or lose interest, based on the actual investment returns, whether positive or negative, earned by the Plan. Within sixty days following a DROP participant's termination of City employment, the member may request payment or may defer payment until a time not later than the latest date the member authorized by Section 401 (a)(9) of the Internal Revenue Code at the option of the member. As of September 30, 2016, there were three DROP participants.

**CITY OF LAUDERHILL
GENERAL EMPLOYEES' RETIREMENT SYSTEM**

NOTES TO FINANCIAL STATEMENTS

NOTE 2 – PLAN DESCRIPTION (Continued)

Contributions and Funding Policy

Benefits of the Plan are financed by contributions that are paid into the Plan and by investment earnings generated by investments of the Plan.

The City is required to contribute an actuarially determined amount that, when combined with the Plan members' contribution, will fully provide for all benefits as they become payable. The Plan members contribute ten percent of earnings.

The City contributes such remaining amount as is necessary to place the Plan on a sound financial basis as determined by actuarial valuation and the provisions of Chapter 112 of the Florida Statutes. Actual contributions in fiscal year 2016 were \$1,521,542, \$1,162,968 from the City and \$358,574 from Plan members.

Rate of Return

For the fiscal year ended September 30, 2016, the annual money-weighted rate of return on pension plan investments, net of pension plan investment expense, was 10.9%. The money-weighted rate of return expresses investment performance, net of investment expense, adjusted for the changing amounts actually invested.

NOTE 3 – INVESTMENTS

The Plan's policy in regard to the allocation of invested assets is established and may be amended by the Board. Plan assets are managed on a total return basis with a long-term objective of achieving and maintaining a fully funded status for the benefits provided through the Plan. The investment policy statement in effect during fiscal year 2016 was last revised on August 20, 2013. The following was the Board's adopted asset allocation policy as of September 30, 2016:

Type of Investment	Target Allocation
Domestic Equities	50%
International Equity	15%
US Direct Real Estate	0%
Absolute Return	10%
Fixed Income	25%
Cash Equivalents	0%

The Board determines the Plan's investment policy. The policy has been designed by the Board to maximize the Plan's asset value, while assuming a risk that is consistent with the Board's risk tolerance. As is prudent, the Board has adopted a policy to diversify investment risk among several institutionally acceptable asset classes including equity securities, fixed income securities and mutual funds.

Investment in all equity securities is limited to no more than 75% of the Plan's total asset value with no more than 5% of an investment manager's equity portfolio invested in the shares of a single corporate issuer. Investment in stocks of foreign companies is limited to 25% of the value of the equity portfolio. No more than 20% of the equity securities may be invested in small-cap stocks and shares of stock in those corporations whose stock has been publicly traded for less than one year are limited to 15% of the equity portfolio. The investments in all fixed income securities must be rated "A" or higher on average by a major rating service.

**CITY OF LAUDERHILL
GENERAL EMPLOYEES' RETIREMENT SYSTEM**

NOTES TO FINANCIAL STATEMENTS

NOTE 3 – INVESTMENTS (Continued)

Interest rate risk – Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment in debt securities. The investment policy of the Plan limits investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates.

Information as to the maturities of the Plan's fixed income portfolio is as follows:

Years	Fair Value
Less than 1 Year	\$ 463,409
1 to 5 Years	2,200,762
6 to 10 Years	1,582,100
11 to 15 Years	63,351
16 to 20 Years	90,712
20 to 25 Years	144,720
Over 25 Years	107,040
	<u>\$ 4,652,094</u>

Credit risk – For investments, credit risk is generally the risk that an issuer of an investment will not fulfill its obligation to the holder of the investment. This is measured by the assignment of a rating by a nationally recognized statistical rating organization. The Plan's investment policy utilizes portfolio diversification in order to control this risk.

Investment ratings by investment type are included in the preceding summary of investments. Included in the AAA rating below are non rated government holdings.

Credit Risk	Fair Value
AAA	\$ 1,206,812
AA	215,858
A	193,635
BAA	893,746
BB	853,080
B and lower	1,288,963
	<u>\$ 4,652,094</u>

Concentration risk – Concentration of credit risk is the risk of loss attributed to the magnitude of an investment in a single issuer. The investment policy of the Plan contains limits on the amount that can be invested in any one issuer as well as maximum portfolio allocation percentages. There were no individual investments that represent 5% or more of fiduciary net position at September 30, 2016.

Foreign currency risk – Foreign current risk is the risk that fluctuations in currency exchange rate may affect transactions conducted in currencies other than U.S. Dollars as well as the carrying value of foreign investments. The Plan's exposure to foreign currency risk derives mainly from its investments in international equity mutual funds. The Plan participates in international equity mutual funds but does not own any foreign individual securities. The Plan's exposure to foreign currency risk related to foreign equity funds are \$3,188,394.

The investment policy limits the foreign investments to no more than 25% of the Plan's investment balance. As of September 30, 2016, the foreign investments were approximately 15% of total investments.

**CITY OF LAUDERHILL
GENERAL EMPLOYEES' RETIREMENT SYSTEM**

NOTES TO FINANCIAL STATEMENTS

NOTE 3 – INVESTMENTS (Continued)

Fair Value Measurement – When applicable, the Plan measures and records its investments using fair value measurement guidelines established in accordance with GASB Statements. GASB defines fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The framework for measuring fair value provides a fair value hierarchy that prioritizes the inputs to valuation techniques.

These guidelines recognize a three-tiered fair value hierarchy, in order of highest priority, as follows:

- *Level 1:* Investments whose values are based on unadjusted quoted prices for identical investments in active markets that the District has the ability to access;
- *Level 2:* Investments whose inputs - other than quoted market prices - are observable either directly or indirectly; and,
- *Level 3:* Investments whose inputs are unobservable.

The fair value measurement level within the fair value hierarchy is based on the lowest level of any input that is significant to the entire fair value measurement. Valuation techniques used should maximize the use of observable inputs and minimize the use of unobservable inputs.

The following table summarizes the Plan's investments within the fair value hierarchy at September 30, 2016:

	Fair Value	Level 2	Level 3
Mortgage loan receivable	\$ 850,000	\$ -	\$ 850,000
Fixed income mutual funds	4,652,094	4,652,094	-
Income opportunity mutual funds	1,017,352	1,017,352	-
Equity mutual funds	11,806,671	11,806,671	-
International mutual funds	3,188,394	3,188,394	-
	<u>\$ 21,514,511</u>	<u>\$ 20,664,511</u>	<u>\$ 850,000</u>

Mutual funds – Some of the underlying securities have observable level 1 quoted pricing inputs. However, while the underlying asset values may be based on quoted market prices, the net asset value of the portfolios is not publicly quoted. Additionally, some of the underlying securities employ matrix pricing. Accordingly, these investments have been reported as level 2.

Mortgage receivable – The amount reported reflects the outstanding balance on the mortgage loan receivable as of September 30, 2016.

NOTE 4 – RISKS AND UNCERTAINTIES

The Plan invests in various investment securities. Investment securities are exposed to various risks such as interest rate, market and credit risks. Due to the level of risk associated with certain investment securities, it is at least reasonably possible that changes in the values of investment securities will occur in the near term and that such changes could materially affect the amounts reported in the Statement of Fiduciary Net Position.

Plan contributions are made and the actuarial present value of accumulated plan benefits are reported based on certain assumptions pertaining to interest rates, inflation rates and employee demographics, all of which are subject to change. Due to uncertainties inherent in the estimations and assumptions process, it is at least reasonably possible that changes in these estimates and assumptions in the near term would be material to the financial statements.

**CITY OF LAUDERHILL
GENERAL EMPLOYEES' RETIREMENT SYSTEM**

NOTES TO FINANCIAL STATEMENTS

NOTE 5 – NET PENSION LIABILITY

Net pension liability as of September 30, 2016 is calculated as follows:

<u>Net pension liability at 7.25% Discount Rate</u>	
Total pension liability (TPL)	\$ 29,278,860
Less fiduciary net position (FNP)	<u>(21,762,029)</u>
Net pension liability (NPL)	<u>\$ 7,516,831</u>

The significant assumption and other inputs used to measure the total pension liability are as follows:

Valuation date	October 1, 2015
Actuarial assumptions:	
Actuarial cost method	Entry Age Normal
Investment rate of return	7.25%
Salary increases	5.0%
Inflation	2.25%
Retirement age	Experience-based table of rates that are specific to the type of eligibility condition.
Mortality	RP-2000 Combined Healthy Participant Mortality Table with mortality improvement projected to all future years after 2000 using Scale AA, and with ages set forward one year.

Certain actuarial assumptions used in the October 1, 2015 valuation are based on a combination of the results of an experience study issued in January 2013 and input from the Board of Trustees. However, according to the actuary, the covered group is too small to provide statistically significant experience on which to base certain demographic assumptions. Accordingly, mortality is based on a commonly used fully generational mortality table and projection scale.

The long-term expected rate of return on pension plan investments was determined using a building-block method in which best-estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation.

**CITY OF LAUDERHILL
GENERAL EMPLOYEES' RETIREMENT SYSTEM**

NOTES TO FINANCIAL STATEMENTS

NOTE 5 – NET PENSION LIABILITY (Continued)

Best estimates of arithmetic real rates of return for each major asset class included in the pension plan's target asset allocation as of September 30, 2016 (see Note 3) are summarized in the following table:

Asset Class	Long-term expected real rate of return
US Large Cap Equity	4.75%
US Small/Mid Cap Equity	5.00%
International Equity	4.50%
US Direct Real Estate	4.50%
Absolute Return	2.50%
Global Infrastructure	3.25%
Fixed Income	0.75%

The discount rate used to measure the total pension liability was 7.25%. The projection of cash flows used to determine the discount rate assumed that plan member contributions will be made at the current contribution rate and that employer contributions will be made at rates equal to the difference between actuarially determined contribution rates and the member rate. Based on those assumptions, the pension plan's fiduciary net position was projected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

The sensitivity of the net pension liability to changes in the discount rate was measured as follows. The net pension liability of the Plan was calculated using the discount rate of 7.25%. It was also calculated using a discount rate that was 1-percentage-point lower (6.25%) and 1-percentage-point higher (8.25%) percent and the different computations were compared.

Discount Rate Minus 1%	7.25% Discount Rate	Discount Rate Plus 1%
\$ 10,783,471	\$ 7,516,831	\$ 4,778,699

NOTE 6 – MORTGAGE RECEIVABLE

On April 11, 2007, the Plan loaned \$850,000 to the Lauderhill Community Redevelopment Agency (LCRA) for the purchase of certain property located in the City of Lauderhill. The loan is secured by a mortgage and security interest on the property and also collateralized by any rents or leases collected on the properties. Semi-annual payments of interest only are due and payable commencing on October 11, 2007, with the unpaid principal balance and accrued interest due on April 11, 2027. The interest rate on the loan accrues at 7% per year. The balance outstanding on the loan as of September 30, 2016 was \$850,000.

In 2007, the Lauderhill Community Redevelopment Agency transferred the properties and assigned the mortgage debt owed to the Plan to the Lauderhill Housing Authority.

NOTE 7 – SUBSEQUENT EVENTS

The Board evaluated subsequent events through March 7, 2017, the date that the financial statements were available to be issued.

**CITY OF LAUDERHILL
GENERAL EMPLOYEES' RETIREMENT SYSTEM
REQUIRED SUPPLEMENTARY INFORMATION**

**CITY OF LAUDERHILL
GENERAL EMPLOYEES' RETIREMENT SYSTEM**

SCHEDULE OF CHANGES IN NET PENSION LIABILITY

Total Pension Liability	2016	2015	2014
Beginning balance	\$ 27,950,043	\$ 26,705,903	\$ 25,812,587
Service cost	652,913	673,960	682,926
Interest	2,036,952	1,936,129	1,923,089
Benefit changes	-	(11,874)	-
Difference between expected and actual experience	(73,178)	(646,450)	(4,059)
Assumption changes	420,080	674,994	-
Benefit payments	(1,633,810)	(1,382,619)	(1,708,640)
Refunds	(74,140)	-	-
Ending balance	<u>\$ 29,278,860</u>	<u>\$ 27,950,043</u>	<u>\$ 26,705,903</u>
Plan Fiduciary Net Position			
Beginning balance	\$ (19,860,050)	\$ (20,253,234)	\$ (18,650,780)
Benefit payments	1,633,810	1,382,619	1,708,640
Refunds	74,140	-	-
Administrative expense	81,069	67,020	58,696
Contributions - employer	(1,162,968)	(1,212,601)	(1,224,361)
Contributions - member	(358,574)	(356,306)	(358,549)
Net investment income	(2,169,338)	512,452	(1,786,880)
Other: adj to beginning of year	(118)	-	-
Ending balance	<u>\$ (21,762,029)</u>	<u>\$ (19,860,050)</u>	<u>\$ (20,253,234)</u>
Net Pension Liability			
Beginning balance	\$ 8,089,993	\$ 6,452,669	\$ 7,161,807
Service cost	652,913	673,960	682,926
Interest	2,036,952	1,936,129	1,923,089
Benefit changes	-	(11,874)	-
Difference between expected and actual experience	(73,178)	(646,450)	(4,059)
Assumption changes	420,080	674,994	-
Administrative expense	81,069	67,020	58,696
Contributions - employer	(1,162,968)	(1,212,601)	(1,224,361)
Contributions - member	(358,574)	(356,306)	(358,549)
Net investment income	(2,169,338)	512,452	(1,786,880)
Other: adj to beginning of year	(118)	-	-
Ending balance	<u>\$ 7,516,831</u>	<u>\$ 8,089,993</u>	<u>\$ 6,452,669</u>
Plan fiduciary net position as a percentage of total pension liability	74.33%	71.06%	75.84%
Covered member payroll*	\$ 3,585,740	\$ 3,563,060	\$ 3,585,490
Net pension liability as a percentage of covered employee payroll	209.63%	227.05%	179.97%

* Covered payroll was calculated by dividing member contributions for the fiscal year by member contribution rate of 10%.

The discount rate was changed to 7.5% effective October 1, 2013 and the discount rate was changed to 7.25% effective October 1, 2014.

**CITY OF LAUDERHILL
GENERAL EMPLOYEES' RETIREMENT SYSTEM**

SCHEDULE OF EMPLOYER CONTRIBUTIONS

Fiscal Year End	(1) Actuarially Determined Contribution (ADC)	(2) Contributions Recognized by the Plan	(3) Difference Between (1) and (2)	Covered Payroll*	Column (2) as a Percentage of Covered Payroll
September 30, 2007	\$ 695,661	\$ 695,661	\$ -	\$ 4,435,906	15.68%
September 30, 2008	814,864	814,864	-	4,926,990	16.54%
September 30, 2009	809,482	809,482	-	4,760,650	17.00%
September 30, 2010	920,970	920,970	-	4,005,580	22.99%
September 30, 2011	993,731	993,731	-	3,631,980	27.36%
September 30, 2012	1,056,516	1,056,516	-	3,495,200	30.23%
September 30, 2013	1,103,955	1,103,955	-	3,798,110	29.07%
September 30, 2014	1,224,361	1,224,361	-	3,585,490	34.15%
September 30, 2015	1,200,656	1,212,601	(11,945)	3,563,060	34.03%
September 30, 2016	1,174,771	1,162,968	11,803	3,585,740	32.43%

* Covered payroll was calculated by dividing member contributions for the fiscal year by member contribution rate of 10%.

The methods and assumptions used to determine contributions rates are as follows:

Valuation date	October 1, 2015
Actuarial cost method	Entry Age Normal
Amortization method	Level Dollar, Closed
Remaining amortization period	25 Years
Asset valuation method	4-year smoothed market
Actuarial assumptions:	
Investment rate of return	7.25%
Salary increases	5.0%
Inflation	2.25%
Retirement age	Experience-based table of rates that are specific to the type of eligibility condition
Mortality	RP-2000 Combined Healthy Participant Mortality Table with mortality improvement projected to all future years after 2000 using Scale AA.

Effective October 1, 2015, the one year age adjustment to the mortality table was eliminated. In addition the amortization period for new bases was shortened to 25 years, and the period for all current bases with more than 25 years remaining was shortened to 25 years. The amortization period for all future gains and losses will be reduced by one year each year going forward.

ANNUAL MONEY-WEIGHTED RATE OF RETURN ON PLAN INVESTMENTS

Fiscal Year End	Money Weighted Rate of Return
September 30, 2012	17.70%
September 30, 2013	15.00%
September 30, 2014	9.50%
September 30, 2015	-2.50%
September 30, 2016	10.90%

**CITY OF LAUDERHILL
GENERAL EMPLOYEES' RETIREMENT SYSTEM
COMPLIANCE REPORT**



INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS

To the Board of Trustees of the
City of Lauderhill General Employees' Retirement System
Lauderhill, Florida

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the City of Lauderhill General Employees' Retirement System ("Plan") as of and for the fiscal year ended September 30, 2016, and the related notes to the financial statements, which collectively comprise the Plan's basic financial statements, and have issued our opinion thereon dated March 7, 2017.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Plan's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Plan's internal control. Accordingly, we do not express an opinion on the effectiveness of the Plan's internal control.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or, significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified. We did identify certain deficiencies in internal control, described in the accompanying schedule of findings and responses that we consider to be significant deficiencies. See findings 2016-01 and 2016-02.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Plan's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards* and which are described in the accompanying schedule of findings and responses. See findings 2016-03 and 2016-04.

The Plan's responses to the findings identified in our audit are described in the accompanying schedule of findings and responses. We did not audit the Plan's responses and, accordingly, we express no opinion on them.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

March 7, 2017

**CITY OF LAUDERHILL
GENERAL EMPLOYEES' RETIREMENT SYSTEM
SCHEDULE OF FINDINGS AND RESPONSES**

Significant deficiencies

2016-01: Accounting

Observation: During the course of conducting procedures for the audit, we noted that proper reconciliations had not been completed resulting in the understatement or overstatement of various accounts of the Plan which resulted in numerous adjustments to various account balances.

Recommendation: We recommend that the Plan reconcile its accounts and compare reconciled amounts to the general ledger and any corresponding supporting documentation on a monthly basis. Further, we recommend that the Plan complete bank and trust statement reconciliations on a monthly basis and determine the nature of any differences within a 30 day period.

Management Response: FHA will provide instruction to the service provider to prepare and reconcile accounting records.

2016-02: Note Transfer

Observation: Audit documentation related to the transfer of the note to the Lauderhill Housing Authority was not provided. The note was originally with the Lauderhill Community Redevelopment Agency and according to the prior year audited financial statements the note had been transferred to the Lauderhill Housing Authority.

Recommendation: The pension plan should obtain the required documentation related to the transfer in accordance with the original note and mortgage agreement.

Management Response: The Board has obtained the documentation related to the transfer and will maintain necessary records.

Noncompliance

2016-03: Investment Policy

Observation: The plan's investment policy under "FIXED INCOME SECURITIES" states that the average credit quality of the bond portfolio must be rated A or higher. The policy states, "fixed income may be managed through the purchase of open-ended, no-load mutual funds or commingled funds. Fixed income funds purchased by investment advisors are expected to **adhere to the guidelines herein.**" Accordingly, this portion of the policy appears to apply to the Plan's fixed income mutual funds and the plan does not appear to comply. However, the investment advisor referred to the plan's investment policy under "MUTUAL FUNDS/COMMINGLED FUNDS" which indicates that the "plan accepts that commingled and mutual fund investments will be dictated by the investment policies and guidelines of those funds and that no additional constraints may be imposed on them. The decision to invest fund assets in any commingled or mutual fund will only be made by the Board of Trustees after thorough review of the policies and/or the prospectuses of those funds and after it has been determined that those **policies are appropriate and consistent with the Board's investment objectives.**"

Based on the proceeding we believe that the Plan is not in compliance with the policy, however the Plan should consider modifying the policy to clarify the issue with mutual funds that primarily invest in fixed income securities.

Recommendation: The Plan should ensure it is in compliance with all aspects of its investment policy and may want to consider modifying the policy as stated above.

**CITY OF LAUDERHILL
GENERAL EMPLOYEES' RETIREMENT SYSTEM
SCHEDULE OF FINDINGS AND RESPONSES (Continued)**

Management Response: The Board has reviewed this with its Investment Advisor, who has informed them that they are in compliance with their Investment policy. The Board has agreed to review the Investment Policy in its entirety and make appropriate changes in a future meeting with the Investment Advisor and Plan Attorney.

2016-04: Qualified Public Depository

Observation: Each official custodian of moneys that meet the definition of a public deposit under Florida Statutes 280.02 shall ensure such moneys are placed in a qualified public depository unless the moneys are exempt under the laws of this state. Each public depository shall submit by November 30 an annual report to the Chief Financial Officer (of the State of Florida). If a public depository does not comply with this section on each public deposit account, the protection from loss is not effective as to that public deposit account.

Recommendation: The Plan should file the qualified public depository annual report by November 30 after fiscal year end to ensure protection from loss of the funds in its account.

Management Response: The Board will file required forms.